Trade Agreements May Open New Markets for Value-Added Exports

Developments in world markets have important implications for value-added products. Freer trade as a result of international trade agreements has contributed to growth in processed food and forest products trade. The direct impacts of lower trade barriers on U.S. exports appear to be modest, so far, but rising incomes worldwide due to liberalized trade may have a more important impact on demand for U.S. value-added exports.

Exports are an important component of demand for value-added products. About 5 percent of U.S. processed food output is exported, and the percentage is even higher for lumber and wood products and pulp and paper (table 1). Exports of processed food and beverages exceed exports of bulk agricultural commodities by a considerable margin, and exports of processed commodities create considerably more jobs than exports of bulk commodities (see app. 5, "Economic Activity Triggered by Agricultural Trade"). Many value-added sectors are controlled by large multinational corporations, so global developments have an important effect on markets for these products (see D.R. Henderson, C.R. Handy, and S.A. Neff (eds.), *Globalization of the Processed Foods Market, Economic Research Service*, AER-742, September 1996).

Among developed countries, trade in processed agricultural and forest products has grown more rapidly than trade in basic commodities. Over the 10-year period from the early 1980's to the early 1990's, exports of processed agricultural commodities by Organization for Economic Cooperation and Development (OECD) countries grew 4.5 percent annually, while exports of basic agricultural commodities increased by only 0.1 percent per year. As a result, the share of processed commodities in OECD agricultural exports increased from 27 to 37 percent. Imports of processed products also grew rapidly. Over the same time period, OECD imports of processed agricultural commodities increased 5.4 percent annually, while imports of basic agricultural commodities increased 2.2 percent annually. Similarly, trade trends in forest products reflect an increasing importance of higher valued products to global trade.

Growth in processed commodities trade has been driven by income-related demand growth in both industrialized economies and developing countries, large and growing populations in developing countries, and changing consumption patterns facilitated by product development and technical innovation. As the standard of living has increased, the preference for processed food, convenience foods in particular, and forest commodities has increased. Technological improvements have greatly facilitated transportation and storage of agricultural products and have contributed to increased and stable supply at competitive prices. For example, improved transportation and storage have led to a rapid increase in the trade of chilled and frozen vegetable products. Similarly, changes in technology and preferences will favor growth in consumption of reconstituted products as opposed to solid products, such as sawn wood.

International Trade Agreements Reduce Trade Barriers

Freer trade resulting from various international trade agreements, including the World Trade Organization (WTO), and its predecessor, the General Agreement on Tariffs and Trade (GATT), has the potential to open new markets for U.S. products. As a result of negotiations under the Uruguay Round of GATT, nontariff trade barriers were converted to tariffs providing an equivalent degree of protection, tariffs are being cut for many commodities, and subsidies and other trade-distorting measures are being reduced or eliminated. For some commodities unilateral reforms and bilateral agreements have been even more significant than reforms required by the Uruguay Round. Reduction of trade barriers is particularly important for trade in processed commodities because many countries have higher rates of protection for processed goods than for unprocessed commodities. The Uruguay Round of GATT sought to reduce this "tariff escalation," but it is still permitted under WTO rules and still exists in many countries. Tariff escalation appears to be more prevalent and severe in developing countries than in developed nations.

Worldwide, forest products tend to be among the least protected commodities. Trade in forest products has generally benefited from successive multilateral accords under the WTO and GATT. Pre-Uruguay Round tariff rates on forest products were the lowest of all

major industrial product groups, and WTO member nations are required to reduce them even further. Additionally, the major developed countries have committed themselves to phasing out tariffs on pulp and paper products during 1995-2005, and many of these countries are also eliminating the tariffs on furniture imports. Forest products have the highest percentage of all imports (85 percent) without duty in developed country import markets. Developing country tariff rates on forest products have also been reduced, but they are still generally higher than those in developed markets. In most markets tariff escalation will be reduced or eliminated under WTO, but a high degree of tariff escalation for forest products still persists in some markets.

Trade in textiles and clothing is largely subject to bilateral quotas negotiated under the Multifibre Arrangement. The objective of the WTO is to eventually integrate the sector into the GATT. In January 1995, each WTO member nation integrated into the GATT products from the specific list in the Agreement, which accounted for not less than 16 percent of its total volume of imports in 1990. All remaining products will be integrated in stages by January 2005. U.S. textiles are believed to have a competitive advantage in access to low-cost cotton and high levels of efficiency, but the labor-intensive U.S. apparel sector, vulnerable to imports from low-wage competitors, could struggle to remain competitive in an environment of freer trade.

Tariffication of products containing sugar has been at rather high levels, reflecting tariffication levels for raw sugar, and less than average reduction commitments. Thus, trade in sugar products probably will not grow significantly.

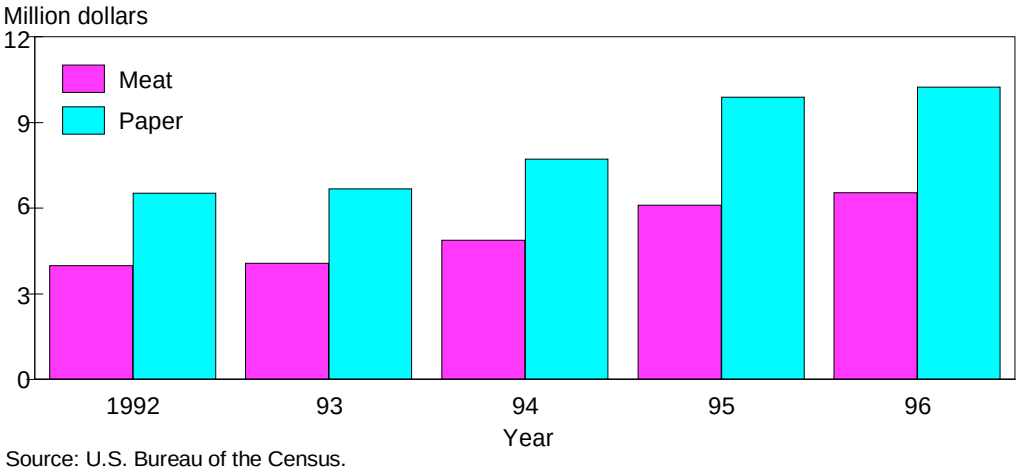
Trade in processed fruit and vegetable products is growing rapidly. U.S. exports of fruits and nuts grew from under $3.2 billion in 1992 to over $4.1 billion in 1996. Tariff levels tend to vary according to whether they apply to competing or noncompeting products. While considerable tariff escalation is observed in fruit and vegetable products, tariffs are reduced substantially for some products. Overall, some additional growth is expected, mainly in products that had not faced high tariff barriers because they do not compete with domestically produced products.

Meat trade has grown rapidly (nearly 7 percent annually for developed countries). U.S. exports of meat products grew from about $4 billion in 1992 to over $6.5 billion in 1996 (fig. 1). Much of the growth can be attributed to trade liberalization in Japan and Korea resulting from unilateral reforms and bilateral trade negotiations with the United States. Trade in meat products was growing prior to the Uruguay Round, and ERS projects continued export growth in the future.

Figure 1

Exports of meat and paper products, 1992-96

Exports of meat and paper have grown in the 1990's



Source: U.S. Bureau of the Census.

Trade in noncheese dairy products has not increased substantially since the early 1980's and tariff reductions in processed dairy products and products containing significant dairy inputs are close to the minimal rate in most cases (an exception is the European Union, which reduced tariffs on most dairy products by 36 percent). Thus, with the exception of cheese, processed dairy products are expected to benefit less in terms of trade than other commodities. Trade in cheese, however, is likely to be affected because of export subsidy commitments, especially those made by the European Union, the world's biggest exporter of cheese. Combined with some growth in trade from the minimum access quotas, there could be significant benefits for non-European Union cheese exporters.

Other Factors May Influence Trade

An important aspect of most trade agreements for trade in processed foods was the creation of a clearer set of obligations regarding product safety standards. The Uruguay Round agreement allows countries to determine their own standards governing food safety and health, but establishes a number of obligations to discourage their use as barriers to trade. The agreement provides for standardized sanitary and phytosanitary rulemaking and established a new dispute settlement mechanism to improve enforcement. These measures potentially could open new markets for U.S. value-added exports and open the U.S. market to import competition.

Factors other than trade policies will have important effects on trade in processed products. International marketing of processed products is much more complex than is the marketing of homogeneous basic commodities. Aspects such as brand awareness and product differentiation are important. Markets for bulk commodities and logs more closely resemble the economist's perfectly competitive model than do markets for processed food. Trade in processed food is often controlled by a few large multinational companies, and trade is based less on comparative advantage and resource endowments and more on strategic considerations. Also, food and beverage companies often prefer to sell to foreign markets by establishing foreign operations (foreign direct investment) rather than exporting directly. Growing foreign markets may be supplied by newly established overseas plants owned by U.S. companies rather than by exports of U.S. products. Other factors influencing trade include transportation costs, input price and availability, quality control, customer service, and the need to tailor products to local preferences.

Studies have projected that incomes, in general, will increase worldwide as a result of WTO and GATT. Freer trade will permit resources to be put to their most efficient use, raising productivity and earnings. Costly subsidies will be reduced and prices will drop for many consumers. This may be the most important impact of the Uruguay Round Agreement. Higher incomes will increase the demand for processed products and expand worldwide markets for value-added products. *[Marinos Tsigas, 202-694-5441, mtsigas@econ.ag.gov]*

Table 1

Exports as a share of manufacturers' shipments: selected value-added industries, 1993

Exports are an important component of demand for many value-added products

Industry	SIC[1]	Export share
		Percent
Food products	20	5
Meat products	2011	7
Poultry and eggs	2015	5
Condensed and evaporated milk	2023	8
Canned specialties	2032	2
Canned fruits and vegetables	2033	6
Canned, fresh, and frozen fruits and vegetables	2037	7
Flour and grain mill products	2041	6
Cereal breakfast foods	2043	2
Wet corn milling	2046	23
Chocolate confections	2066	5
Soybean oil mill products	2075	16
Malt beverages	2082	1
Bottled and canned soft drinks	2086	1
Chips	2096	2
Cigarettes	2111	17
Cotton broadwoven fabrics	2211	9
Broadwoven wool fabrics	2231	6
Leather and sheep-lined clothing	2386	32
Lumber and wood products	24	9
Logs and pulpwood	2411	28
Sawmill and planing products	2421	14
Wood millwork products	2431	3
Hardwood veneer and plywood	2435	13
Softwood veneer and plywood	2436	7
Reconstituted wood products	2493	6
Furniture and fixtures	25	6
Paper and allied products	26	7
Pulp mill products	2611	49
Paper and paperboard products	262,263	8
Sanitary paper products	2676	4
Books	2731	10
Blankbooks, looseleaf binders	2782	7
Synthetic cellulosic fibers	2823	27
Gum and wood chemicals	2861	17
Leather	3111	28
Men's footwear	3143	7
Women's footwear	3144	5

[1]Standard Industrial Classification code.

Source: U.S. Bureau of the Census, *U.S. Commodity Exports and Imports as Related to Output: 1993 and 1992,* OEI/93, September 1995.